

Owning rental property in the United States as a nonresident is a common investment, but it comes with specific tax responsibilities. If you live outside the U.S. and earn rent from a property located there, the Internal Revenue Service (IRS) requires you to report that income.

There are two options to handle your U.S. tax obligations as a nonresident landlord.

Option 1: The 30% Flat Tax

The first choice is to not file a formal U.S. income tax return. While this is the simpler path this option is often the most expensive overall from a tax perspective. Under this method, you must pay a flat tax of 30% on the total rent (gross income) you collect. You cannot claim any deductions against the rental income.

Gross Income: This 30% tax applies to the total amount of rent received, not your profit.

Withholding: If you use a rental agent, they are required to take this 30% out of your rent and send it to the IRS.

Self-Payment: If you do not have an agent, you are responsible for paying this 30% directly to the IRS yourself.

Most nonresident taxpayers do not utilize this option as it is generally more favorable to file a tax return and take allowable deductions, which can reduce or eliminate any tax due.

Option 2: Filing a U.S. Tax Return and Deducting Expenses

The second option is to file a U.S. income tax return using Form 1040-NR. This is the tax form for individual nonresidents. As a nonresident, if you own a property with your spouse, you must file separately. There is no “Married Filing Jointly” option. All individuals on title are required to file. Under this approach, rental income is reported, but related expenses are deducted. This involves making an election on a timely filed U.S. tax return to allow the deductions.

Common deductible expenses include property taxes, repairs, maintenance, insurance, supplies, improvements, and management fees. Depreciation is also allowed. Depreciation is a calculated deduction that reflects wear and tear on the property over time.

If there is no profit, there is no tax to pay. Furthermore, if your expenses are higher than your income, those losses can be carried forward to offset future profits or even the profit made when you eventually sell the property.

Important Deadlines to Remember

The US tax year runs January through December. As a nonresident, generally, your tax return is due on June 15 of the following year.

Need more time? AN extension can be requested. This changes your filing deadline to December 15. Filing for an extension is common and straightforward. Filing an extension only extends the time to file the tax return, any tax due must be paid by your original filing deadline.

Getting Set Up to File Returns

To file returns instead of paying the 30% gross withholding, you need two things.

- 1.) A US tax identification number. If you aren't eligible for a Social Security Number, you will need to apply for an Individual Taxpayer Identification Number, or ITIN.
- 2.) Forms from the “W-8 series” (If you use a rental agent / property manager). These forms tell your agent you plan to file a tax return. They stop withholding the 30% from your rents collected. The Form W-8ECI (Effectively Connected Income) commits you to filing a U.S. tax return each year.

Key Takeaway

Owning US rental property as a nonresident individual comes with U.S. tax obligations. You have choices in how you meet them. Understanding your options helps you keep more of your rental income while staying compliant with US tax law.

The filing option takes more initial setup and annual paperwork. But for most property owners, the tax savings far outweigh the extra effort.

Author's Notes

There are other planning opportunities related to the rental of U.S. real estate. Each situation is unique.

This article is not intended to be tax advice.

Corporate or partnership, foreign or domestic, ownership is beyond the scope of this article.

Real estate transactions involving foreign sellers present unique complexities. Each situation involves different property values, ownership structures, gain calculations, and timing and fact pattern considerations that affect the strategy that is right for you.

Consulting with tax professionals who regularly handle international property transactions helps ensure you understand your specific obligations and exploring available options that can help you maximize your profits and minimize your U.S. taxes.

I am happy to advise you on the options available to you in complying with the requirements on the rental of your property.

About the author:

David A Cumberland, CPA CGMA has presented at the local, state, and national level. David has authored articles intended for both the taxpayer and the tax professional. He is vice chair of the FICPA International tax committee and founder of Cumberland CPA & Co. which serves clients worldwide. He has published in the FICPA's Florida CPA Today magazine and produces client-based tax articles in English and Spanish to educate both current and prospective clients and advisors to those clients. He primarily practices in the area of inbound international tax work covering both individual and business tax preparation and consulting. Fluent in Spanish, his emphasis is working with international clients or clients with international considerations. David brings unique value and perspective to advising clients as a CPA as he has more than two decades of operational management experience in business in addition to a technical tax background. Having retired as lead shareholder of the International Tax Department of one of the largest independent certified public accounting firms in Southwest Florida his focus now is on continuing to serve clients he is passionate about in a boutique setting.

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